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SUBJECT: SAFETY ISSUES SHAKING UP TOY INDUSTRY IN SOUTH CHINA

REF: GUANGZHOU 911

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11. (SBU) Summary: The toy industry in Guangdong Province is undergoing a major "shake-out" cruise as manufacturers seek to protect the integrity of their product, buyers express concerns, and government officials enforce regulations in the interests of maintaining the China "brand" name. In Shantou and Jieyang, two eastern Guangdong cities that are centers of toy manufacturing, officials have closed almost 30 percent of local toy producers since July; orders from buyers have dropped sharply. Local officials claim that training programs and more frequent inspections have been successful, asserting that there have been no safety-related recalls of toys made in area factories. Companies remain concerned about "biased" foreign reporting with regard to product safety in south China; at times, they complain about the difficulty of figuring out how to meet differing international standards for products exported to multiple countries. Some companies are eager to show their quality assurance procedures; they note that the emphasis on safety has enhanced quality and made them more competitive. End summary.

12. (U) Shantou and Jieyang in eastern Guangdong Province are important centers of toy manufacturing. There are 78 registered toy manufacturers in Shantou, including 40 that export toys overseas. Local officials estimate that 8 percent of those toy exports are destined for the United States. Jieyang has 26 registered toy producers with 18 companies licensed to export.

Fewer Players, Fewer Orders

13. (SBU) Product safety concerns have caused officials to shut down toy manufacturers with safety problems and have reduced orders from buyers. In Shantou, national and provincial government agencies have closed 30 toy manufacturers out of 108 that were registered in July 2007 before the implementation of more stringent checks for toy safety and quality. Officials in Jieyang blamed negative media coverage for a sharp decline in orders for local toy factories. They told us that Jieyang's toy industry had seen total orders fall by approximately 30 per cent from a year ago.

Government Tightens Controls and Offers Training

14. (SBU) Shantou China Inspection and Quarantine (CIQ) officials told us that a series of new measures to improve toy safety standards in the area had ensured no safety-related problems in toys produced in the area. The new measures include more frequent inspections with a specific focus on safety controls for paint and compilation of detailed files on the product quality performance for each manufacturer. In addition, inspection agencies have also begun installing a sophisticated closed-circuit video monitoring system that will allow officials to monitor factories remotely.

15. (SBU) Another important component of the enhanced safety regime is product safety training for toy makers. CIQ officials confirmed that representatives of 8 local enterprises participated in a special training seminar for 400 Guangdong Province toy producers on October 15 in Dongguan City. (Note: there likely will be more on training later this month when Vice Premier Wu Yi visits Guangzhou for a State Council Product Safety Conference. End note.) The training session was sponsored by China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and the Ministry of Commerce (MOFCOM) in Beijing, and each geographic area of Guangdong Province was granted a number of seats for industry participants. Local CIQ officials selected enterprises to participate and ensured that all slots were filled. The high-profile event was widely covered in the media, but few details were provided at the time. CIQ officials pointed out that the Dongguan seminar supplemented more frequent local sessions on toy quality standards and quality control procedures.

16. (SBU) Despite signs of more effective enforcement of safety standards by local officials, overlap and a lack of coordination among local agencies involved in monitoring product quality

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continues. In addition to CIQ's controls for toy exports, the Technical Supervision Bureau (TSB) regulates toys produced for the domestic market. In discussions with both agencies, it was clear that staff and laboratory resources are duplicated in each organization. In addition, a joint meeting in Jieyang revealed that long-serving local CIQ and TSB officers had never met or worked together before.

Strategies for Safety - Control, Design, Test

17. (SBU) Strict supply control, relying on internal design, and frequent random testing are common quality control strategies at toy factories in Shantou and Jieyang. Chen Fengchang, the general manager of Goldlok Toy Manufacturing, told econoff that his firm used only imported paints to ensure safety. Other materials are also subject to strict controls. Chen explained that when the factory was opened in the 1980s, its Japanese customers sent employees to live and work at the factory for a few years to ensure quality standards were high. Today the firm exports most of the action figures, models and radio-controlled toys it produces to Japan, Europe and the United States.

18. (SBU) Jieyang Defa Toy Company executive Lu Jianwen emphasized strict supply controls to maintain traceability of paint and fabrics used in the production. Lu only buys paints from a few select domestic suppliers, all of whom are specially certified. In addition, the firm's contracts with paint and other suppliers include penalties if materials supplied do not meet specific quality standards. Jieyang Defa Toy Company primarily exports plastic Barbie-like dolls to Europe and Russia under its own brand name.

19. (SBU) Auldey Toy Company's general manager highlighted reliance on internal design as the key to preventing safety and quality problems with the firm's toys. The company holds over 1000 patents on its toys and produces no original equipment manufacturing (OEM) products under contract for other toy companies. Auldey Toy Company is one of two "famous brands" in the Shantou toy industry, producing approximately 1000 different toy lines ranging from infant toys to four-wheel drive motor cars and yo-yos. The factory is one of the largest and most successful in the area, selling most of its toys on

the domestic market.

¶10. (U) In addition, executives at each company said they rely on frequent quality testing in their own labs, local government labs and at private laboratories such as SGS and Intertek when requested by customers. Toy manufacturers said they passed the costs of private lab testing on to customers except when a problem was identified that the manufacturer should have prevented.

Blaming Media and Mixed Standards

¶11. (SBU) Government and industry representatives echoed complaints we've heard before blaming both the media and the variation in international standards for product quality problems (reftel). Shantou CIQ officials said recent Philippine media reports had incorrectly blamed candy made in Shantou for making children sick despite ample proof that no quality problems existed. They argued that biased foreign media coverage had spread China's product safety image problem beyond the United States and other developed markets. Several toy producers also suggested that the United States should harmonize safety standards with the European Union.

Comment - Getting More Competitive

¶12. (SBU) Recent toy safety problems appear in some ways to have strengthened the competitiveness of eastern Guangdong's toy industry. Executives at each firm seemed to believe that recent events had placed them in an advantageous position because they already met most quality guidelines prior to the negative publicity of recent toy recalls. The local CIQ closing of almost 30 per cent of area toy producers and more frequent inspections have helped force local factories to conform to international quality standards. With the drop in orders the remaining factories must compete more vigorously for sales.

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